

MOODY'S ASSIGNS MIG 1 RATING TO STATE OF CALIFORNIA RANS

NEW YORK, Sep 14, 1999 -- Moody's Investors Service has assigned a MIG 1 rating to the State of California 1999-2000 Revenue Anticipation Notes (RAN). The highest quality rating reflects the state's conservative revenue forecast, its cash management practices, significant additional borrowable resources from other state funds, and the overall credit quality of the state of California whose general obligation bonds are rated Aa3. California's credit outlook is stable.

Proceeds of the RANs are to be used to fund ongoing cashflow needs arising from seasonal cashflow imbalances during fiscal year 2000. The state is a regular issuer of tax anticipation notes, utilizing short-term borrowing to meet general fund cash flow requirements. The current borrowing equals 1.58% of anticipated general fund receipts. The state's cash balance (before any borrowing) is lowest in the second half of the fiscal year, prior to the receipt of major income tax receipts in the last quarter.

The notes are a claim against the general fund, subject to the prior claims of: (1) public schools; (2) bonded debt of the state; and (3) special fund reimbursements. They are secured by unapplied money in the General Fund, and may include money transferred to the General Fund from the Special Fund for Economic Uncertainties (SFEU) and internal borrowing from certain other funds in the state treasury to the extent permitted by law. These funds are known as "borrowable resources", as they may be borrowed by the general fund to meet its obligations and later repaid. About eighty-four percent of general fund revenues is derived from personal income tax and retail and use taxes.

The MIG 1 rating is based on the following credit considerations.

AMPLE PROJECTED CASH BALANCES AFTER NOTE REPAYMENT

The state is projecting unused borrowable resources of about \$6.5 billion after repayment of the RANs, which is nearly 6.5 times more than the amount borrowed and 10.2% of total projected receipts. In addition, if the Controller projects that there are insufficient moneys to pay general fund obligations (including the notes), the state may issue warrants (as it did in fiscal years 1993-1995) to meet its obligations. Moody's does not anticipate the state will have to avail itself of the warrant option.

LIMITED RISKS TO CASHFLOW ASSUMPTIONS

In contrast to the early 1990's, risks to the cashflow projections are limited. Revenue performance over the last several years has exceeded projections, and the state's underlying forecasts regarding economic variables are reasonable. For fiscal 1999, the state had projected an unused borrowable resources ending balance of \$5.9 billion, but in fact, ended with a significantly higher balance of \$8.7 billion. The state economy's increased diversification has positioned it for further expansion in the near term, but the state has projected growth that will likely be at a slower pace than that realized over the last two years. Projections for fiscal 2000 provide a prudent margin against a regional or national economic slowdown beyond the moderation in growth currently being assumed by the state.

Y2K RENOVATIONS NEARING COMPLETION

As part of its Y2K remediation effort, the state identified 556 state systems as "mission critical". Based on a survey of all state departments conducted by the state's Department of Information Technology, 97% of the state's mission critical systems have completed remediation. The state anticipates all mission critical systems will be Y2K compliant by the end of September, as will all contingency plans. The state's remediation effort is estimated to cost \$357 million, all of which has been appropriated by the General Assembly. In addition, state lawmakers adopted a bill during the 1998 legislative session which provides immunity from tort liability for any person or entity, including government

entities, who shares information about the Year 2000 in good faith.

OUTLOOK:

The rating outlook for the state is stable. The economy is projected to continue to grow, but at a slower rate than that of the last two years. However, such growth should continue to outpace that of the nation. Given the scale of capital needs, the debt burden is likely to grow, further highlighting the significance of the state's new plans to institute a formal multi-year capital planning process to maintain the integrity of the state's infrastructure.

DEBT AFFECTED:

ISSUE	RATING
1999-2000 Revenue Anticipation Notes	MIG 1
Sale Amount \$1,000,000,000.00	
Expected Sale Date 09/22/99	
Rating Description Revenue Anticipation Notes	

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